



Otto Township  
(Oceana)  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
64-1130  
March 31, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Otto Township</b>	County <b>Oceana</b>
Audit Date <b>3/31/04</b>	Opinion Date <b>9/21/04</b>	Date Accountant Report Submitted to State: <b>9/30/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Brickley DeLong PLC</b>			
Street Address <b>500 Terrace Plaza</b>		City <b>Muskegon</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49443</b>	Date <b>9-30-04</b>

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**BRICKLEY DeLONG**  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

September 21, 2004

Township Board  
Otto Township  
Rothbury, Michigan

We have audited the accompanying general purpose financial statements of Otto Township as of and for the year ended March 31, 2004 as listed in the table of contents. These general purpose financial statements are the responsibility of Otto Township's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note A4c, the general purpose financial statements referred to above do not include financial statements of the General Fixed Assets Account Group, which should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Otto Township, Michigan as of March 31, 2004 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BRICKLEY DeLONG

Township Board  
September 21, 2004  
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Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements provided on pages 16 through 20 are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of Otto Township. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Brickley De Long, P L C*

Otto Township  
**COMBINED BALANCE SHEET—ALL FUND TYPES**  
 March 31, 2004

**ASSETS**

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Trust and agency</u>
Cash and investments	\$ 90,630	\$ 21,241	\$ 21,004
Taxes receivable	6,414	-	-
Due from other governmental units	6,241	-	-
	<u>\$ 103,285</u>	<u>21,241</u>	<u>\$ 21,004</u>

**LIABILITIES AND FUND EQUITY**

**LIABILITIES**

Deposits held for others	\$ -	\$ -	\$ 10,176
Due to other governmental units	-	-	6,734
	<u>-</u>	<u>-</u>	<u>16,910</u>

**FUND EQUITY**

Fund balances	-	-	4,094
Reserved for pension benefits	103,285	21,241	-
Unreserved	<u>103,285</u>	<u>21,241</u>	<u>4,094</u>
	<u>\$ 103,285</u>	<u>\$ 21,241</u>	<u>\$ 21,004</u>

The accompanying notes are an integral part of this statement.

Otto Township  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES—ALL GOVERNMENTAL FUND TYPES**  
 Year ended March 31, 2004

	General Fund	Special Revenue
Revenues		
Property taxes	\$ 37,822	\$ -
Licenses and permits	1,101	-
Intergovernmental revenues - state	54,931	-
Investment income	768	255
Charges for service	7,773	-
Other	2,116	-
	<u>104,511</u>	<u>255</u>
Expenditures		
Current		
Legislative	9,784	-
General government	38,589	-
Public safety	13,138	-
Public works	12,158	-
Community and economic development	2,871	-
Culture and recreation	800	-
	<u>77,340</u>	<u>-</u>
Excess of revenues over expenditures	27,171	255
Fund balance at April 1, 2003	76,114	20,986
Fund balance at March 31, 2004	<u>\$ 103,285</u>	<u>\$ 21,241</u>

The accompanying notes are an integral part of this statement.

Otto Township  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES—BUDGET AND ACTUAL—GENERAL FUND**  
 Year ended March 31, 2004

	Amended budget	Actual	Over (under) amended budget
Revenues	\$ 94,788	\$ 104,511	\$ 9,723
Expenditures			
Current			
Legislative	8,530	9,784	1,254
General government	38,418	38,589	171
Public safety	13,138	13,138	-
Public works	6,237	12,158	5,921
Community and economic development	4,505	2,871	(1,634)
Culture and recreation	800	800	-
	<u>71,628</u>	<u>77,340</u>	<u>5,712</u>
Excess of revenues over expenditures	<u>\$ 23,160</u>	27,171	<u>\$ 4,011</u>
Fund balance at April 1, 2003		<u>76,114</u>	
Fund balance at March 31, 2004		<u>\$ 103,285</u>	

The accompanying notes are an integral part of this statement.



Otto Township  
Pension Trust Fund  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
Year ended March 31, 2004

ADDITIONS		
Contributions		
Employer contributions		\$ 2,395
Investment income		
		<u>123</u>
		2,518
DEDUCTIONS		
Investment Fees		
		<u>439</u>
NET INCREASE FOR THE YEAR		2,079
Net assets held in trust for pension benefits at April 1, 2003		<u>2,015</u>
Net assets held in trust for pension benefits at March 31, 2004		<u><u>\$ 4,094</u></u>

The accompanying notes are an integral part of this statement.

Otto Township  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
March 31, 2004

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Otto Township are prepared in accordance with generally accepted accounting principles. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

**1. Reporting Entity**

Otto Township (Township) is a common law township governed by an elected five-member board.

Generally accepted accounting principles require that if the Township has certain oversight responsibilities over other organizations, those organizations should be included in the Township's financial statements. Since no organizations met this criteria, none are included in the financial statements.

**2. Fund Accounting**

The accounts of the Township are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device used to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The following fund categories (further divided by fund type) and account groups are used by the Township:

***Governmental Funds***

Governmental funds are used to account for the Township's general government activities. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes.

***Fiduciary Fund***

The fiduciary fund accounts for assets held by the Township on behalf of others in a fiduciary capacity. Pension trust funds account for assets held in a fiduciary capacity for employee retirement benefits. The agency fund accounts for assets the Township holds on behalf of others.

Otto Township  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
March 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

The governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Township considers all revenues available if they are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims, and judgments which are recognized when the obligations are expected to be liquidated with available expendable financial resources.

Property taxes, franchise taxes, licenses, interest, and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Township and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Agency funds are custodial in nature and do not measure results of operations or have a measurement focus. Pension Trust Funds are custodial in nature and utilize accrual accounting.

Otto Township  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
March 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Equity

a. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of six months or less from the date of acquisition.

The Township has adopted an investment policy in compliance with State of Michigan statutes. These statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools, and certain mutual funds.

Pension plan investments are reported at fair value. The Township's pension trust investments are held in trust by the investment fiduciary, Travelers Life and Annuity Company. Michigan Compiled Laws, Section 38.1132, authorizes the Township's plan to invest in a wide variety of investments including stocks, bonds, certificates of deposit, real estate, annuity contracts obligations of specified nature, and real or personal property.

b. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not available expendable financial resources.

The Township bills and collects its own property taxes. Taxes are levied on December 1 and are due without penalty on or before February 28. The property taxes attach as an enforceable lien on property as of December 1. Uncollected real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all of these delinquent real property taxes. Collection of delinquent personal property taxes as of February 28 remain the responsibility of the Township Treasurer.

The 2003 taxable value for the Township was \$15,035,483 on which ad valorem taxes were levied at 1.1344 mills for operating purposes and .9237 for fire operations. These amounts are recognized in the General Fund financial statements.

Otto Township  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
March 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Equity—Continued

c. Property and Equipment

Generally accepted accounting principles require that fixed assets used in governmental fund type operations of the Township be accounted for in a General Fixed Assets Account Group rather than in governmental fund types. Although the Township does maintain an accounting of fixed assets for internal control and insurance purposes, it does not maintain records of the historical cost as required for a General Fixed Asset Account Group.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

d. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

***Budgetary Information***

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles for all the governmental funds except capital projects funds which adopt a project length budget and debt service funds.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first week of March, the Township Supervisor submits to the Township Board a proposed operating budget for the year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.

Otto Township  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
March 31, 2004

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

*Budgetary Information—Continued*

- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Not later than the first week in March, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function, and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level. The Township Board made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

1. Deposits

The Township's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of March 31, 2004, the Township's carrying amount of deposits was \$128,781, and the bank balance was \$134,084. Of the bank balance, \$100,000 was covered by federal depository insurance.

Otto Township  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED  
March 31, 2004

NOTE C—DEPOSITS AND INVESTMENTS—Continued

2. Investments

As of March 31, 2004, the Township's investments represented holdings in mutual funds.

During the year ended March 31, 2004, the Township's investments were only in these types of investments.

The Township's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or the securities held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Township's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Township's name. Mutual funds are not categorized. As of March 31, 2004, the Township's fair value in those mutual funds was \$4,094

The composition of pension trust fund investments at fair value is included in the previous paragraph and shown as follows:

Guaranteed Income funds	\$ <u>4,094</u>
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NOTE D—PENSION PLAN

The Township provides pension benefits for its full-time employees through a money purchase plan. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. The Plan is administered through an independent third party, and contributions are based on annual earnings. For the year ended March 31, 2004, wages covered by the Plan were approximately \$23,000. For the year ended March 31, 2004, the contribution to the Plan by the Township was approximately \$2,300 which represents 10 percent of covered payroll.

NOTE E—OTHER INFORMATION

***Risk Management***

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Township carries commercial insurance. Liabilities in excess of commercial insurance, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the past three years.

**COMBINING AND INDIVIDUAL FUND STATEMENTS**



Otto Township  
General Fund  
**STATEMENT OF EXPENDITURES**  
Year ended March 31, 2004

Expenditures		
Legislative		
Township board		
Salaries and wages	\$	2,950
Payroll taxes		43
Pension		2,395
Professional services		1,842
Membership and dues		280
Education and training		140
Publishing		174
Insurance		750
Other		1,210
		<hr/> 9,784
General government		
Supervisor		
Salaries and wages		5,400
Payroll taxes		78
Education and training		69
Other		37
		<hr/> 5,584
Assessor		
Salaries and wages		6,300
Supplies		862
Other		4,049
		<hr/> 11,211

Otto Township  
General Fund  
**STATEMENT OF EXPENDITURES—CONTINUED**  
Year ended March 31, 2004

Expenditures—Continued

General government—Continued

Clerk

Salaries and wages	\$ 4,442
Payroll taxes	69
Supplies	147
Transportation	50
Printing and publishing	618
Education and training	89
	<hr/> 5,415

Board of review

Salaries and wages	419
Printing and publishing	156
	<hr/> 575

Treasurer

Salaries and wages	5,230
Payroll taxes	90
Supplies	822
Contracted services	787
Transportation and training	450
	<hr/> 7,379

Townhall

Supplies	83
Insurance	3,673
Contracted services	60
Utilities	1,266
	<hr/> 5,082

Otto Township  
General Fund  
**STATEMENT OF EXPENDITURES—CONTINUED**  
Year ended March 31, 2004

Expenditures—Continued	
General government—Continued	
Cemetery	
Salaries and wages	\$ 2,650
Payroll taxes	95
Supplies	98
Other	500
	<u>3,343</u>
	38,589
Public safety	
Fire	13,138
Public works	
Roads	6,237
Sanitation	5,921
	<u>12,158</u>
Community and economic development	
Zoning	
Salaries and wages	2,622
Payroll taxes	30
Supplies	59
Other	160
	<u>2,871</u>
Culture and recreation	
Library	800
	<u>\$ 77,340</u>

Otto Township  
Trust and Agency Funds  
**COMBINING BALANCE SHEET**  
March 31, 2004

ASSETS

			Agency Fund	
	<u>Combined</u>	<u>Pension Trust Fund</u>	<u>Trust and Agency Fund</u>	<u>Tax Collection Agency Fund</u>
Cash and investments	\$ <u>21,004</u>	\$ <u>4,094</u>	\$ <u>10,176</u>	\$ <u>6,734</u>
	\$ <u><u>21,004</u></u>	\$ <u><u>4,094</u></u>	\$ <u><u>10,176</u></u>	\$ <u><u>6,734</u></u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Deposits held for others	\$ 10,176	\$ -	\$ 10,176	\$ -
Due to other governmental units	<u>6,734</u>	<u>-</u>	<u>-</u>	<u>6,734</u>
	16,910	-	10,176	6,734

FUND BALANCES

Reserved for pension benefits	<u>4,094</u>	<u>4,094</u>	<u>-</u>	<u>-</u>
	\$ <u><u>21,004</u></u>	\$ <u><u>4,094</u></u>	\$ <u><u>10,176</u></u>	\$ <u><u>6,734</u></u>

Otto Township  
Trust and Agency Funds  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
Year ended March 31, 2004

	<u>Balance April 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2004</u>
<b>TRUST AND AGENCY FUND</b>				
Assets				
Cash and investments	\$ 10,098	\$ 78	\$ -	\$ 10,176
	<u>\$ 10,098</u>	<u>\$ 78</u>	<u>\$ -</u>	<u>\$ 10,176</u>
Liabilities				
Deposits held for others	\$ 10,098	\$ 78	\$ -	\$ 10,176
	<u>\$ 10,098</u>	<u>\$ 78</u>	<u>\$ -</u>	<u>\$ 10,176</u>
<b>TAX COLLECTION FUND</b>				
Assets				
Cash and investments	\$ 20,599	\$ 418,421	\$ 432,286	\$ 6,734
	<u>\$ 20,599</u>	<u>\$ 418,421</u>	<u>\$ 432,286</u>	<u>\$ 6,734</u>
Liabilities				
Due to other governmental units	\$ 20,599	\$ 418,421	\$ 432,286	\$ 6,734
	<u>\$ 20,599</u>	<u>\$ 418,421</u>	<u>\$ 432,286</u>	<u>\$ 6,734</u>

BRICKLEY DeLONG  
CERTIFIED PUBLIC ACCOUNTANTS

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September 21, 2004

Township Board  
Otto Township  
Rothbury, Michigan

In planning and performing our audit of the general purpose financial statements of Otto Township for the year ended March 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Otto Township's ability to initiate, record, process and report financial data consistent with the assertions of management in the general purpose financial statements. We have attached a summary of the reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described above are not believed to be material weaknesses.

This report is intended for the information of the Township Board, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLLC*

## REPORTABLE CONDITIONS

Recommendation 1: The clerk should maintain a complete and fully-adjusted trial balance.

During our review, we noted the clerk's records did not include all the required balance sheet and detailed revenue accounts.

The clerk should maintain all required accounts. The maintenance of these accounts would make it easier for the clerk and treasurer to compare cash balances on a regular basis and would allow for monthly financial results to be tracked.

Recommendation 2: Bank statements should be reconciled to the Township clerk's records.

We noted the bank statements are not being reconciled to the Township clerk's records. The treasurer prepares a bank reconciliation but does not agree it to the Township clerk's records. The failure to reconcile the bank statements to the Township clerk's records provides the opportunity for misappropriations of funds and accounting errors to go undetected.

We recommend that the bank reconciliations be prepared for all accounts and agreed to the Township clerk's records on a monthly basis.

Recommendation 3: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Township should continue using its current accounting system, but seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions and reconciliations by the Township Board and chief executive officer.

Recommendation 4: A master plan should be developed for preparing the Township's accounting records for conversion to the financial reporting model required by GASB 34 and related statements.

During our audit, we made inquiry of Township personnel in regards to the Township's conversion to the financial reporting model required by GASB 34 and found that the Township has not yet begun the necessary work to prepare for the conversion. Of primary concern is the accumulation of fixed asset information.

The Township should develop a plan for implementing GASB 34. This timetable should include all significant items, dates to be completed and the individual or department responsible.

## REPORTABLE CONDITIONS—CONTINUED

Recommendation 5: Management should consider a policy requiring periodic back-ups of accounting records and off-site storage of all back-up computer discs.

During our review of procedures surrounding the computer function, we noted that the Township's accounting records were not regularly backed-up and that back-up discs are not stored at an off-site location.

Implementing a policy that required regular back-ups and off-site storage of all back-up discs would reduce the possibility of essential data being lost by the Township due to a disaster.

Recommendation 6: All compensation for services of employees should be reported and paid through payroll.

During our testing, we noted that payments to Zoning and Board of Review board members were being treated as independent contractor expenses. The payments should have been recorded and reported as payroll.

Payment of all employee services through the payroll system ensures that all compensation to employees is reported on Internal Revenue Service forms W-2 and that proper fringe benefits are remitted to the appropriate authorities.